

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

<b>(1) DEPARTMENT</b> Airports	<b>(2) MEETING DATE</b> 8/11/2015	<b>(3) CONTACT/PHONE</b> Kevin Bumen 781-5205	
<b>(4) SUBJECT</b> Request to proceed with the construction of a new terminal building at the San Luis Obispo County Regional Airport by accepting an initial grant award from the Federal Aviation Administration (FAA) in the amount of \$15,619,998; awarding a construction contract to Q&D Construction, Inc. as general contractor in the amount of \$27,500,000; approving a contract with Arcadis U.S., Inc. (Clerk's File) in the amount of \$1,042,400 to provide construction management services; approve a corresponding budget adjustment to establish the project totaling \$35,422,008; authorize financing for the project totaling \$6 million; and provide direction to staff regarding how the Airport should repay the loan to finance the estimated \$3.4 million local share of the project not funded by the FAA or other funding sources. All Districts.			
<b>(5) RECOMMENDED ACTION</b> It is recommended the Board: <ol style="list-style-type: none"> <li>1. Approve and direct the Chair to sign the FAA Grant Award of \$15,619,998;</li> <li>2. Create the project "330023-Airport-SLO-Construction Passenger Terminal" and authorize a budget adjustment totaling \$35,422,008 to the Airport Fund by 4/5 vote;</li> <li>3. Accept the results of the April 20, 2015 bid opening for the New Passenger Terminal project, and award a construction contract to Q&amp;D Construction Inc., as general contractor, in the amount of \$27,500,000 and direct the Chair to sign the contract;</li> <li>4. Approve and direct the Chair to sign a Construction Management Services contract with Arcadis U.S. Inc. in the amount of \$1,042,400;</li> <li>5. Adopt and direct the Chair to sign a resolution approving the Airport-SLO-Construction Passenger Terminal Project Construction Change Order Policy;</li> <li>6. Adopt and direct the Chair to sign a resolution authorizing the Auditor-Controller-Treasurer-Tax Collector to apply for financing with the California Infrastructure and Economic Development Bank (IBank) in an amount not to exceed \$6,000,000;</li> <li>7. Approve the creation of an Airport Terminal designation in the amount of \$11,687,490 in the Tax Reduction Reserve Fund using the Tax Reduction Reserve Designation as the funding source and authorize the Auditor- Controller-Treasurer-Tax Collector to reduce the designation by the amount of any additional project funding that becomes available in the future;</li> <li>8. Authorize the Auditor-Controller-Treasurer-Tax Collector to support cash flow requirements for the project; and</li> <li>9. Provide direction to staff regarding how the Airport should repay the loan to finance the estimated \$3.4 million local share of the project not funded by the FAA or other funding sources.</li> </ol>			
<b>(6) FUNDING SOURCE(S)</b> FAA AIP \$26,539,539 PFC \$ 5,056,479 CFC \$373,782 IBank loan \$3,452,208 Total \$35,422,008	<b>(7) CURRENT YEAR FINANCIAL IMPACT</b> \$35,422,008 total project appropriation	<b>(8) ANNUAL FINANCIAL IMPACT</b> Annual Financing Expense for 30 years: PFC \$158,136 Local Share \$176,850 Total \$334,986	<b>(9) BUDGETED?</b> No
<b>(10) AGENDA PLACEMENT</b> <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____ ) <input checked="" type="checkbox"/> Board Business (Time Est. <u>60 minutes</u> )			
<b>(11) EXECUTED DOCUMENTS</b> <input checked="" type="checkbox"/> Resolutions <input checked="" type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A			

(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) #19001581 – Arcadis US Inc. #19001582 – Q&D Construction Inc.		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: 1415164 <input checked="" type="checkbox"/> 4/5 Vote Required      { } N/A
(14) LOCATION MAP Attached	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { } N/A Date: <u>3/17/2015, 10/28/2014, 7/15/2014,</u> <u>3/11/2014, 11/5/2013, 9/24/2013, 7/23/2013,</u> <u>3/5/2013.</u>
(17) ADMINISTRATIVE OFFICE REVIEW Geoff O'Quest, Administrative Analyst		
(18) SUPERVISOR DISTRICT(S) All Districts		

# County of San Luis Obispo



TO: Board of Supervisors

FROM: Airports / Kevin Bumen  
781-5205

DATE: 8/11/2015

SUBJECT: Request to proceed with the construction of a new terminal building at the San Luis Obispo County Regional Airport by accepting an initial grant award from the Federal Aviation Administration (FAA) in the amount of \$15,619,998; awarding a construction contract to Q&D Construction, Inc. as general contractor in the amount of \$27,500,000; approving a contract with Arcadis U.S., Inc. (Clerk's File) in the amount of \$1,042,400 to provide construction management services; approve a corresponding budget adjustment to establish the project totaling \$35,422,008; authorize financing for the project totaling \$6 million; and provide direction to staff regarding how the Airport should repay the loan to finance the estimated \$3.4 million local share of the project not funded by the FAA or other funding sources. All Districts.

## **RECOMMENDATION**

It is recommended the Board:

1. Approve and direct the Chair to sign the FAA Grant Award of \$15,619,998;
2. Create the project "330023-Airport-SLO-Construction Passenger Terminal" and authorize a budget adjustment totaling \$35,422,008 to the Airport Fund by 4/5 vote;
3. Accept the results of the April 20, 2015 bid opening for the New Passenger Terminal project, and award a construction contract to Q&D Construction Inc., as general contractor, in the amount of \$27,500,000 and direct the Chair to sign the contract upon receipt of all insurance and bond documents;
4. Approve and direct the Chair to sign a Construction Management Services contract with Arcadis U.S. Inc. in the amount of \$1,042,400;
5. Adopt and direct the Chair to sign a resolution approving the Airport-SLO-Construction Passenger Terminal Project Construction Change Order Policy;
6. Adopt and direct the Chair to sign a resolution authorizing the Auditor-Controller-Treasurer-Tax Collector to apply for financing with the California Infrastructure and Economic Development Bank (IBank) in an amount not to exceed \$6,000,000;
7. Approve the creation of an Airport Terminal designation in the amount of \$11,687,490 in the Tax Reduction Reserve Fund using the Tax Reduction Reserve Designation as the funding source and authorize the Auditor-Controller-Treasurer-Tax Collector to reduce the designation by the amount of any additional project funding that becomes available in the future;
8. Authorize the Auditor-Controller-Treasurer-Tax Collector to support cash flow requirements for the project; and
9. Provide direction to staff regarding how the Airport should repay the loan to finance the estimated \$3.4 million local share of the project not funded by the FAA or other funding sources.

## **DISCUSSION**

### **Executive Summary**

Beginning with the 1998 Airport Master Plan the Department of Airports has been working for many years toward the construction of a new terminal building at the San Luis Obispo County Regional Airport. Several projects, funded by grants, have been completed in order for the terminal to be constructed. The terminal project was approved to go out to bid in March 2015. The project is now ready for construction. The low bidder has been identified as Q&D Construction, Inc. and a grant has been offered to Airports from the Federal Aviation Administration (FAA) to construct the terminal. The project is planned to be funded through several sources including FAA Airport Improvement Program (AIP) Grant, Passenger Facility Charges (PFC's), and Customer Facility Charges (CFC's). These sources provide funding for approximately 90% of the project. Working with the Auditors Office, a plan has been developed to fund the remaining portions of the project through a loan from the California Infrastructure and Economic Development Bank (IBank). Staff is also seeking direction from the Board how the Airport should repay the loan to finance the estimated \$3.4 million local share of the project not funded by the FAA or other funding source.

### **Background**

Beginning with the 1998 Master Plan, the Airport has been working toward the construction of a new terminal building. There are several reasons for the new terminal building which include:

- The terminal and aircraft parking apron used by the commercial aircraft are too close to the runway and need to be relocated to effectively meet Federal Aviation Administration (FAA) safety standards. The airport currently operates with a Modification to Standards issued by the FAA which is not a feasible long-term solution. The airport has little room for alternatives considering the FAA's expectation to eliminate these modifications.
- The terminal and aircraft parking apron are insufficiently sized for current demand. While the airport experienced a loss starting in 2008, passenger counts are continuing to increase. In 2014, the airport had over 152,000 passenger enplanements and this number is expected to grow. Airlines have retired older, smaller, aircraft in favor of larger regional jets. These aircraft take up a much larger footprint severely limiting the aircraft parking capability as well as impacting aircraft operating on the adjacent taxiway. Due to the higher passenger counts resulting from larger aircraft, the allowable building occupancy limits are routinely reached, and sometimes exceeded, creating safety concerns for the public.
- Airports is in a position to receive significant grant and other funding resulting in the County contributing approximately 10% of the overall project cost.

With the ultimate goal of constructing a new terminal building, a number of FAA funded projects have been undertaken over the past 15 years. These projects include, but are not limited to, reconstruction of the entry and exit roads to the airport (including underground infrastructure), construction of the aircraft parking apron and associated pavement for the new terminal, and the design of the terminal building itself. These already completed projects represent an expenditure of Airport Funds, FAA grants and Passenger Facility Charges (PFC's) in excess of \$17 million dollars.

In 2003, the Airport began the planning work with the FAA to obtain grant funding for the construction of the terminal building with preliminary schematic designs of a much larger facility than currently planned. A capital funding plan had been established with the FAA in order for construction to begin in 2011. As a result of the 2008 economic recession it was apparent the airport could no longer undertake the construction of the terminal in its then present form. The FAA reluctantly accepted the change to the timing of planned construction. A new grant was provided to fund the design of a smaller terminal, and funding was programmed into the FAA's capital improvement plan for the construction of the new terminal in 2015 and 2016 Federal Fiscal Years.

### **Project Scope**

The primary need for the new terminal is the elimination of the modifications to FAA safety and design standards. This is accomplished by moving the terminal operations away from the parallel taxiway and out of the safety areas surrounding the runway. In addition, the intent of the design is to meet capacity needs the airport is currently experiencing as well as

allow for growth into the future. The design allows for future expansion of ticketing and baggage claim as well as passenger boarding area and security screening. The scope of work includes:

- New passenger terminal building, approximately 48,500 sf (total enclosed) area
- Designed to meet Leadership in Energy and Environmental Design (L.E.E.D) Silver specification although a certification is not being proposed;
- Incorporates use of high efficiency fixtures, systems and low maintenance materials;
- Terminal building comprised of two separate buildings, plus a vertical circulation core:
  - Landside Building, which includes Ticketing, Baggage Claim, Passenger and Baggage Screening, Toilet Rooms, Administration Offices and Support Areas,
  - Airside Building, which includes Passenger Waiting Lounges (Holdroom), Boarding Areas, Toilet Rooms, and Support Areas
  - Note: The landside and airside buildings are connected via an exterior, partially covered hardscaped courtyard area.
- A Vertical Circulation Core is located between the existing lower parking lot and the upper curbfront roadway. The Vertical Circulation Core includes an elevator, stairs, an Americans with Disabilities Act (ADA) compliant accessible ramp, provisions for future escalators, retaining walls and general landscaping.

### Project Status

Airports is now ready to move forward with construction of the terminal. The Board authorized Airports to put the terminal out to bid on March 17, 2015. This was necessary in order to complete the grant application with the FAA as construction grants are based on bids. The County received three sealed bids on April 20, 2015, one each from Q&D Construction, Inc. for \$27,500,000, Lewis C. Nelson and Sons for \$29,997,000, and AMG & Associates, Inc. for \$31,454,000. Q&D Construction, Inc. was the lowest responsible bidder and the bid is valid until August 18, 2015. No bid protests were received. The grant application was updated with the bid information along with the revised project costs and submitted to the FAA.

A grant offer has been extended to the airport in the amount of \$15,619,998 and must be executed and returned to the FAA by August 13, 2015 or the grant may be forfeited. This grant amount represents only a portion of the total grant requested. Based on numerous meetings with the FAA, including a recent meeting with County Administrative staff, Board member representatives, Auditor-Controller-Tax Collector-Treasurer and Airports staff, the FAA has given the strongest assurances possible of their intention of providing the remaining amount of \$8,570,689 in the 2016 Federal Fiscal Year. Construction is planned to take up to 24 months to complete. While the FAA cannot give a formal commitment of the funding for the 2016 Fiscal Year, Airports has been assured the requested level of funds has been programmed into the planning system. County Counsel has reviewed and approved the grant agreement. However, the FAA requires Counsel to sign after the Board Chairperson has signed, therefore County Counsel's signature has not yet been included.

In addition to the bid for construction, the County released a Request for Statement of Qualification for Construction Management services. A selection panel was appointed with representatives from General Services, County Public Works, the County Administrative office and Airports. The rating system and interviews were qualifications-based and proposed fees were not viewed until after the final selection was made. Arcadis US, Inc. was selected and a fee negotiated. Airports recommends the contract be awarded to Arcadis US, Inc. in the amount of \$1,042,400.

Reynolds, Smith, and Hills (RS&H), the General Consultant and Architect for the terminal project, will be providing Construction Administration (CA) Services for the terminal project under their existing contract. Work orders for these services, with negotiated fees, will be brought back on a future agenda for approval.

Additional contracts for services including Inspector of Record, Special Inspections and Commissioning Agent will be presented to the Board in future agendas.

### Public Contract Code Change Order Limits

The attached resolution authorizes the Director of Airports, or his designee, to approve individual Construction Contract Change Orders up to \$210,000, so long as any change or addition is deemed consistent with the proper completion of the Project under the sound discretion of the Director of Airports, or his designee; and so long as the change or addition does not exceed the maximum dollar amount allowed under Public Contracts Code Section 20142. Individual change orders over \$210,000 require a written recommendation from the Project Architect, a written recommendation from the Airports

Director, or his designee, and authorization from the Board of Supervisors.

Contracting for Services Policy Relating to Professional Services Contracts

The Board adopted Contracting for Services policy, Section 4.1.6, limits change orders for services contracts in the amount of \$50,001 and above to an aggregate of \$25,000 or 25% of the original consulting contract, whichever is higher. Exceeding this threshold requires Board approval. Staff is not proposing any changes to this policy for this project.

**OTHER AGENCY INVOLVEMENT/IMPACT**

The Federal Aviation Administration provides grant funding and oversight. The Planning and Building Department along with Cal Fire/County Fire have performed a plan check of the airport terminal project. General Services has been involved in the general conditions review along with bidding, Requests for Qualifications and fee negotiations. The County Administrative Office has been involved throughout the various phases of the project. The Auditor-Controller-Treasurer-Tax Collector's Office has provided assistance and coordination in developing financial projections as well as planning for debt funding and sources. The Debt Advisory Committee has met and reviewed the terminal project and is recommending the funding option through the California Infrastructure and Economic Development Bank (IBank). County Counsel has reviewed grant agreements and contracts for form and legal effect.

**FINANCIAL CONSIDERATIONS**

Project Costs

The project costs, outlined in Table A below, have increased by \$4.84 million since the last board meeting in October 28, 2014. The construction bid came in approximately \$2.4 million more than estimated. Contingencies increased by \$1.1 million from approximately \$2 million (8% of construction only) to \$3.1 million (10% including both construction and soft costs). Soft Costs which include, but are not limited to, Construction Management, Inspector of Record, Construction Administration Services, and administrative oversight, increased \$1.5 million. This is due to a change in project strategy with the addition of contracts for construction management and inspector of record not included in the estimate presented in October.

Table A: Project Costs

<b><u>ITEM</u></b>	<b><u>OCTOBER 2014 ESTIMATE</u></b>	<b><u>CURRENT PROJECT ESTIMATE</u></b>	<b><u>INCREASE/ (DECREASE)</u></b>
CONSTRUCTION	\$25,053,059	\$27,500,000	\$2,446,941
FF&E	\$1,077,184	\$1,077,184	\$0
SOFT COSTS	\$2,090,000	\$3,668,023	\$1,578,023
DEBT ISSUANCE COSTS	\$357,500	\$60,000	(\$297,500)
<b>SUBTOTAL</b>	<b>\$28,577,743</b>	<b>\$32,305,207</b>	<b>\$3,727,464</b>
CONSTRUCTION CONTINGENCIES	\$2,004,245	\$2,750,000	\$745,755
SOFT COST CONTINGENCIES	\$0	\$366,801	\$366,801
<b>TOTAL CONTINGENCIES</b>	<b>2,004,245</b>	<b>\$3,116,801</b>	<b>\$1,112,556</b>
<b>TOTAL PROJECT COSTS</b>	<b>\$30,581,988</b>	<b>\$35,422,008</b>	<b>\$4,840,020</b>

## Project Funding Sources

The terminal project is planned to be funded from a variety of funding sources, shown in Table B, which include some one time funds and external borrowing. The one time funding sources are: FAA Airport Improvement Program (AIP) Grant consisting of Discretionary and Entitlement Funds, and reserves built up from the Airport's fees for Passenger Facility Charges (PFC's), and Customer Facility Charges (CFC's). Revenue from PFC's and Airport operations will provide annual funding that can be used for debt service. The outside funding sources will cover approximately \$32 million or 90% of the total estimated project expense, leaving approximately \$3.4 million or 10% of the project as the local share (\$3.1 million of estimated costs, plus \$284,614 of contingencies).

The FAA grant funding is broken down into two Federal Fiscal Years. The first year, 2015, consists of the grant offer already received of \$15,619,998. The second year, 2016, is the remaining amount of \$8,570,689 for a total requested amount of \$24,190,687.

Project contingencies have been planned at 10% of estimated project cost totaling \$3,116,801. As shown in Table B below, contingencies have been distributed by eligibility of cost to the various funding sources.

Table B: Funding Sources

<u>Funding Source</u>	<u>Total Funding</u>	<u>BOS Action Requested</u>
Total FAA AIP Grant Yr. 1 Awarded July 8, 2015	\$15,619,998	Accept Year One Grant
Remaining FAA AIP Grant	\$8,570,689 (a)	a) Designate FAA year two Funds
<b>Total FAA AIP Grant Application</b>	<b>24,190,687</b>	
PFC On Hand	\$1,774,718	
Total CFC On Hand	\$339,802	
Locally Funded Amount (Possible Financing)	\$3,167,594 (b)	b) Local Share
PFC Debt/Financed	\$2,832,406	
<b>Total External Financing</b>	<b>\$6,000,000</b>	c) Max. G.F. backed external financing
<b>Project Grant Total</b>	<b>\$32,305,207</b>	
Contingencies – FAA	\$2,348,852	
Contingencies – CFC	\$33,980	
Contingencies – PFC	\$449,355	
Contingencies – Local	\$284,614	
<b>Total Contingencies</b>	<b>\$3,116,801</b>	a) Total Contingency-Designation
<b>Project Estimated Cost With Contingencies</b>	<b>\$35,422,008</b>	

a) Total internal loan designation required, minimal risk, only used if needed. (\$8,570,689+\$3,116,801= \$11,687,490)

b) Local amount – Ineligible for outside grant funding – to be financed.

c) Total external financing maximum amount required. (\$6,000,000)

## Debt Issuance

Staff is requesting authorization to obtain financing in an amount not to exceed \$6,000,000 through the California Infrastructure and Economic Development Bank (IBank). The local share of \$3,167,594, plus the PFC amount to be financed of \$2,832,406, represent the total debt maximum requirement of \$6,000,000.

The \$6,000,000 debt equates to approximately \$334,986 of annual debt service. This includes \$158,136 annual PFC debt service payment and \$176,850 local share annual debt service payment. To calculate the annual debt service, certain assumptions were made including \$60,000 in transaction costs, 60-90 days to issue, debt interest rate (3.75%), and a term of 30 years.

### General Fund Designation Required for Borrowing

In order to borrow the \$6,000,000 (shown in Table C), the lender requires the total project funds be committed prior to issuing a loan. Although the FAA has indicated they have programmed \$8,570,689 for the second year funding, the lender requires a commitment of the total project, including contingencies before it will issue a loan. The maximum loan amount we are requesting is \$6,000,000. Therefore, the County will need to designate the second year funding (\$8,570,689) and contingencies (\$3,116,801) totaling \$11,687,490 and be prepared to use this designation to complete the project. The County Administrative Officer and the Auditor-Controller-Treasurer-Tax Collector recommend the designation be established in the Tax Reduction Reserve Fund which has been used in the past to fund Capital Improvements at the Airport. The FAA portion of designation, \$8,570,689, would be paid off in year two. However, if all or any part of the second year funding is not awarded by the FAA, Airports would then use the designation which could potentially take up to 8 years to reimburse the \$11,687,490 using future year FAA AIP entitlement grant funds.

Table C: 30 Year Debt Summary

<b><u>Financing/Debt – 30 years</u></b>	<b><u>30 year Annual Payment</u></b>	<b><u>30 year Total Debt</u></b>
PFC Share	\$158,136	\$2,832,406
Local Share	\$176,850	\$3,167,594
<b>Total</b>	<b>\$334,986</b>	<b>\$6,000,000</b>

30 year assumes 3.75% interest rate

### Feasibility and Airport Financial Forecast

Airports can be subject to negative world events, economic downturns, decisions of the airlines, and public perception. These types of events can significantly impact the Airport's ability to pay its debt and possibly routine operating expenses.

A detailed financial analysis was presented to the Board in October 2014, summarizing the worst, best and most likely financial forecast. As of October 2014, the most likely, or baseline financial forecast, anticipated the Airport would experience an operating deficit of about \$250,000 once the terminal was complete. With several months passing, the forecasts have been updated to include new revenue and expenditure estimates. The current baseline, or most likely forecast, is now estimating an annual deficit of \$216,270, including the annual debt estimated at \$176,850.

The County has been preapproved for a loan from the IBank to the Airport, backed by the General Fund, to finance the estimated \$3.4 million local share of the project. The Airport will be responsible for repayment of the loan and all related finance charges, estimated to total \$5.4 million over 30 years. However, the Airports' ability to make payments without incurring an annual deficit will vary from year to year depending upon fiscal year enplanement levels, operating costs, and Airport Fund operating balances at the end of each year. (See Table D, below.) Therefore, Airports will likely need to rely on assistance from the General Fund in some years to make the annual payments. Staff is requesting direction from the Board regarding how the Airport should repay the General Fund for this assistance.

### Operating Costs Following Completion of the Terminal

It is estimated that the new terminal building would have an increase of \$113,620 in operating costs primarily due to an increase of \$50,960 in utilities and \$62,660 in custodial support. The increase is factored into the baseline financial forecast scenario, mentioned above in the Feasibility and Financial Forecast section. The increased operations forecast an estimated operating deficit of \$39,420. Considering that this represents less than 1% of total operating budget and that it is based on relatively conservative assumptions, this means Airports are essentially projected to break-even, before factoring in the cost of debt service that will be owed to IBank. With the annual debt service included, an annual deficit is projected, as shown in Table D, below. Barring direction from the Board, staff recommends the Board make this decision annually as part of its year end budget actions.



Table D: Airports Operating Fund Estimate

	<u>Historical Budget (Current 7 Yr. Avg)</u>	<u>Updated Baseline, w/ New Terminal</u>	<u>Estimated Budget w/Bus Costs (No Terminal)</u>
Airport Operating Budget	\$3,851,265	\$4,524,600	\$4,524,600
Airport Operating Revenues	\$(3,873,719)	\$(4,484,900)	\$(4,484,900)
<b>(Surplus)/Deficit - Subtotal Operating Fund</b>	<b>\$(22,454)</b>	<b>\$39,700</b>	<b>\$39,700*</b>
Additional Utilities - New Terminal		\$50,960	-
Additional Custodial - New Terminal		\$62,660	-
Additional Equipment Costs - Bus purchase			not analyzed
Additional Maint & Fuel Costs - Bus			not analyzed
Additional Staff time for busing passengers			\$365,000
<b>Additional Operating Expenditures</b>	<b>-</b>	<b>\$113,620</b>	<b>\$365,000</b>
Additional Operating Revenues	-	(113,900)	(113,900)
<b>(Surplus)/Deficit - Operating Fund</b>	<b>\$(22,454)</b>	<b>\$39,420</b>	<b>\$290,800</b>
Proposed Debt Service – Local Share	-	\$176,850	-
<b>(Surplus)/Deficit - Operating Fund, incl. debt</b>	<b>\$(22,454)</b>	<b>\$216,270</b>	<b>\$290,800</b>

\*Airport operating budget held constant with new terminal baseline for comparison only. Actual result may vary.

#### Operating Costs if the New Terminal is Not Built

If the Airport were to forego building a new terminal, operating costs would increase due to a new passenger boarding process. Due to the distance separating the existing terminal from the new aircraft parking apron, Airports would have to bus passengers to the boarding location in order to meet FAA safety regulations. Operating costs related to busing passengers has not been fully analyzed or researched. The Airport could contract out services or staff the bus operations itself. Busing operations would be required for 20 hours per day, 365 days per year. This results in approximately 7,300 hours of additional staff time using 3.5 Full Time Equivalent (FTEs) employees at a cost of approximately \$365,000 annually.

In addition to the costs to the airport, the airlines would experience increased costs. The added distance would require the airlines to increase staffing levels as well as acquire additional equipment in order to operate in this new format. These added costs could have a detrimental effect on the level of service provided by the airlines and could limit any potential new service for the community.

#### Risk to General Fund

There is a risk to the General Fund if the second year FAA grant award is not approved in part or in full. The County would need to use the Tax Reduction Reserve Fund (TRRF) designation to complete the project. It is believed that the airport will receive all of the FAA requested funding in year two, and the risk is minimal.

To mitigate the risk to the General Fund, the annual FAA AIP entitlements can be used in part to repay the TRRF loan. AIP entitlements are based on enplanements and average approximately \$1,500,000 a year. Given other project needs, Airports could safely commit \$1,200,000 of this funding per year to pay debt service on a completed project.

#### Financial Risks & Impacts of Rejecting the Federal Grant Award:

The Airport currently operates with a Modification to Standard issued by the FAA, which is only a temporary solution. It is a risk for the Airport not to address these safety standards with a more permanent solution. Delaying the decision to accept the FAA Grant award, or rejecting it outright, would lead to the following negative financial impacts:

- Extremely high risk of losing FAA Funding (up to \$24 million) toward the current construction project with limited to no opportunity for future grants.
- The local share of funding would increase significantly in any future project.
- The Airport would incur on-going operational costs related to repairs and maintenance of an outdated building.
- Airport Operations would incur new, on-going, operational costs related to busing passengers to planes.
- The Airport would risk loss of additional airline revenue due to lack of capacity.
- Airlines would experience increased operating costs impacting their ability to serve the community.

## **RESULTS**

By moving forward with the construction of a new terminal the Board will ensure the continued viability of the airport and commercial air service for the County of San Luis Obispo, addressing FAA safety requirements and providing a new state of the art passenger facility that will last for many years to come. The facility will also enable Airports to more effectively meet changing security requirements, airline needs and customer expectations.

## **ATTACHMENTS**

1. Site Map
2. FAA Grant Agreement
3. Arcadis Construction Management Services Contract – Clerks Filed
4. Resolution Approving the Airport-SLO-Construct Passenger Terminal Project Construction Change Order Policy
5. Resolution Approving Financing Agreement with California Infrastructure and Economic Development Bank